

TO: State Directors, Rural Development

ATTN: Community Programs Managers

FROM: James C. Alsop  
Acting Administrator  
Rural Housing Service

SUBJECT: Audit Guidance for Borrowers of Community Programs

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to provide guidance on the requirements for submission of annual audit reports for Community Facilities (CF) loans, grants, and loan guarantees. The audit requirements for CF direct loans and grants are detailed in RD Instruction 1942-A, section 1942.17(q), "Borrower Accounting Methods, Management Reporting and Audits." It is imperative that these guidelines are followed to ensure the appropriate accountability of Federal awards expended.

COMPARISON WITH PREVIOUS AN:

This AN updates RD AN No. 3547 (1942-A) that was issued on May 12, 2000, and expires on April 30, 2001.

IMPLEMENTATION RESPONSIBILITIES:

Audited financial statements shall be submitted on an annual basis in accordance with the Government Auditing Standards (GAAS), Generally Accepted Accounting Principles (GAAP), and the Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States, 1994 revision, and any subsequent revisions.

Audits performed in accordance with OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations," are based upon the amount of Federal financial

EXPIRATION DATE:  
May 31, 2002

FILING INSTRUCTIONS:  
Preceding RD Instruction 1942-A

assistance expended during a borrower's fiscal year from all Federal sources. Borrowers expending Federal financial assistance over \$300,000 are required to have an OMB Circular A-133 audit.

In accordance with OMB Circular A-133, a borrower's outstanding loan balance must be included in the calculation of Federal awards each year if the Federal agency imposes continuing compliance requirements for the life of the loan. Community Programs (CP) does not impose such compliance requirements under the CF loan and grant programs. Therefore, the outstanding Rural Development loan balance is not included in the calculation of Federal awards expended by the borrower after the year of award. Entities with outstanding loan balances on loans from other Federal agencies may have to include that debt as Federal awards expended each year if those agencies impose continuing compliance requirements. It is the borrower's responsibility to make this determination and to inform Rural Development of the amount of financial assistance received. (Please refer to the attached chart, "Community Programs Audit Requirements," Exhibit 1, to determine the appropriate audit requirements for CP borrowers.)

The 1996 Single Audit Act Amendments provided for the issuance of a Compliance Supplement to assist auditors in performing audits. The Compliance Supplement provides an invaluable tool to both Federal agencies and auditors in setting forth the important provisions of Federal assistance programs. The Compliance Supplement (Appendix A-133) is updated annually. The March 2000 Supplement applies to audits from fiscal years after June 30, 1999, and is available on the Office of Management and Budget homepage at the following address: [www.whitehouse.gov/omb](http://www.whitehouse.gov/omb) or [www.whitehouse.gov/omb/grants/index.html](http://www.whitehouse.gov/omb/grants/index.html) in PDF, Word Perfect, or Word formats. You may purchase the Compliance Supplement at Government Printing Office bookstores under stock number 041-001-00544-7 for \$64.

A borrower using interim bank financing is considered to have expended Federal awards. Therefore, a direct CF loan borrower that expends \$300,000 or more in interim financing per fiscal year is required to submit a Circular A-133 audit report. A borrower spending less than \$300,000 per fiscal year may submit an audit performed in accordance with the lender's audit requirements. This may include a GAGAS audit, an audit performed in accordance with generally accepted auditing standards, or (with Rural Development approval) a management report. Additionally, when applicable, the lender will require an audit in accordance with the Office of Management and Budget (OMB) circulars.

For direct loans, a management report is required when an entity expends less than \$300,000 per year and has an outstanding loan balance of less than \$300,000. Upon Rural Development approval, the borrower may submit management report, Form RD 442-2, "Statement of Budget, Income, and Equity," and Form RD 442-3, "Balance Sheet," in lieu of an audit report. Rural Development should closely review the borrower's financial condition and management practices when making the determination on reporting requirements. It may be necessary to request management reports more frequently when servicing and monitoring delinquent or problem cases.

The Office of Inspector General is in the process of updating the Rural Development “yellow book.” This document will be forthcoming.

If you have further questions, please contact Sharon Douglas, Community Programs Division, (202) 720-1506.

Attachment

(Exhibit 1)

**COMMUNITY PROGRAMS AUDIT REQUIREMENTS  
APPLICABLE TO COMMUNITY FACILITIES  
LOANS, GRANTS, LOAN GUARANTEES AND INTERIM FINANCING**

<b>FEDERAL FUNDS EXPENDED</b>	<b>A-133 AUDIT</b>	<b>GAGAS AUDIT</b>	<b>MANAGEMENT REPORT 442-28-4423</b>	<b>AUDIT REPORTING REQUIREMENTS</b>
\$300,000 or more Beginning with audits Of FY's ending 8/30/97	X			Within 13 months After the end of Auditee's fiscal year
\$300,000 or more Beginning with audits Of FY's ending 6/30/99	X			Within 9 months After the end of Auditee's fiscal year
Less than \$300,000 Per year and an outstanding Loan balance of \$300,000 Or more		X		Within 5 months after The end of the fiscal year
Less than \$300,000 Year and an outstanding Loan balance of less than \$300,000			X	Within 60 days after End of the fiscal year

## **ADDITIONAL REQUIREMENTS FOR A-133 AUDITS**

Schedule of Expenditures of  
Federal Awards

Data Collection form

Summary Schedule of Prior  
Audit Findings

Corrective Action Plan

Written Management Decision

Submit Audit to Agency and  
Clearinghouse